

February 14, 2002

To: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

**SENATE BILL 657 (SCOTT) - (ITEM No. 8, AGENDA OF FEBRUARY 19, 2002)**

Item Number 8 on your agenda for Tuesday, February 19, 2002, is a motion by Supervisor Knabe to support **SB 657 (Scott)** and send a five-signature letter of support to the author, Governor Davis and the Los Angeles County Legislative Delegation.

SB 657 would conform state income and corporation tax laws with provisions of the federal Economic Growth and Tax Relief Reconciliation Act of 2001 that apply to retirement plans and certain trusts. Included are provisions to increase the Education IRA limit and expand coverage to qualified elementary and secondary schools, increase the annual contribution amount for IRA's and provide for "catch up contributions", increase and index the limits on annual elective deferrals for 401(k), 403(b) and 457 plans, and increase the portability of pensions by liberalizing rollover options. In order to offset the loss of state revenue that would result from these changes, the bill would conform with federal tax law which denies a business deduction for compensation to an employee that exceeds \$1 million annually, as well as for membership dues in private clubs. It would also require a company which elects a certain tax treatment at the federal level to do the same on its state return.

Supporters of the bill point out that the federal law changes create much needed incentives for individuals to save for their retirement that state law should reinforce by adopting. In addition, failure to conform state law will create accounting and tax calculation problems for California taxpayers and businesses.

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A number of counties have indicated support for the bill, including San Luis Obispo, Santa Cruz and San Benito. There is no stated opposition. SB 657 passed the Senate on January 30 on a vote of 38-0. It is currently in the Assembly Committee on Revenue and Taxation.

While SB 657 would be beneficial to the County and its employees, **there is no existing policy on this issue. Consequently, a position on SB 657 is a matter for Board policy determination.**

DEJ:GK  
JR::md

c: Executive Officer, Board of Supervisors  
County Counsel